GRESHAM CITY COUNCIL
AGENDA ITEM TYPE: DECISION

Resolution No. 3021: Updating Water Utility Rates

Meeting Date: June 15, 2010 Agenda Item Number: E-1
Service Area: Environmental Services Service Area Manager: David S. Rouse

REQUESTED COUNCIL ACTION

Move to approve Resolution No. 3021 amending Resolution No. 2508 establishing Water fees and charges and repealing Resolution No. 2937.

PUBLIC PURPOSE AND COMMUNITY OUTCOME

The Water Utility provides key services which are vital to the livability of our community. The public drinking water system provides a clean, safe, and reliable water supply to the community, through operations and maintenance of the water distribution and storage system.

Rates are the primary revenue source for providing these utility services. The goal is to find a balance that leads to long-term sustainability of quality services as well as affordability for our customers both now and into the future.

City policy is to maintain infrastructure at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.

BACKGROUND

Water rates are reviewed on an annual basis. Utility operating needs, including projected revenues and expenditures, are evaluated over a 20-year horizon using long-term rate models. Water rates pay for the cost of providing safe, reliable drinking water including the purchase of water from Portland, shared costs of operating the groundwater supply system with Rockwood Water PUD, the operation and maintenance of the water storage and distribution system, the delivery of water-related customer services and programs, water system repair and replacement, capital improvements, and debt service requirements.

The Water Utility must be financially sustainable in order to continue providing services to current and future Gresham citizens. Based on current finance plan review and modeling, the Water rates are projected to increase on January 1, 2011 by 4.0 percent or $1.29 per month for a typical residential customer. This proposal also includes an increase on January 1, 2012 of an additional 6.0 percent, or $2.01 per month for a typical residential customer.

Primary factors influencing the proposed Water rate increase include regulatory requirements, maintenance needs, capital projects and debt payment requirements. A two-year package is being proposed, which allows some of the increase needed to be shifted into the second year, allowing more time for the economy to recover. Also, given the existing uncertainties with the long-term debt markets and bond ratings, a two year proposal

will provide additional security and ensure that rating agencies continue to view the Water Utility favorably.

Revenues collected through rates must cover the cost of operating and maintaining the utility systems today, as well as the cost of replacing those systems in the future as the existing infrastructure wears out. Without charging rates, these utility services could not be provided.

RECOMMENDATION AND ALTERNATIVES

1. Staff recommends approval of the Water rates as proposed in Resolution No. 3021.

2. Council may choose to adopt a modified proposal or defer action on the existing proposal. Deferring rate increases or adopting a partial increase may impact maintenance and operation of the Water Utility and may defer or eliminate needed capital improvements.

3. Council may choose not to adopt an increase at this time. Forgoing rate increases will likely impact maintenance and operation of the Water Utility and will defer or eliminate needed capital improvements. These actions may impact bond ratings and could increase the likelihood of being out of compliance with regulatory requirements which could result in fines and/or other penalties.

BUDGET / FINANCIAL IMPACT

The proposed rate increase will generate additional revenue which is needed to support ongoing operation and capital expenses and existing debt obligations. A 1% increase to the Water rate results in approximately $115,000 per year in additional revenue for the Water Utility. The associated impact to a typical single family residence for a 1% increase is approximately 32 cents per month.

PUBLIC INVOLVEMENT

All rate adjustments are adopted by Council resolution. Primary factors influencing proposed water rates are typically discussed during the budget committee process and the Capital Improvement Program adoption process. Utility rates were also discussed at the February 9, 2010 Policy Development Meeting.

NEXT STEPS

The rate adjustments will be incorporated into utility bills beginning January 1, 2011. Customer notification will occur prior to that date.

ATTACHMENTS

A. Resolution No. 3021
B. 2010 Water Finance Information

FROM:

David S. Rouse, Environmental Services Director
Brian Stahl, Water Division Manager
Sharron Monohon, Senior Management Analyst

REVIEWED THROUGH:

Deborah Bond, Finance and Management Services Director
David Ris, City Attorney
Office of Governance and Management

FOR MORE INFORMATION

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RESOLUTION NO. 3021

A RESOLUTION AMENDING RESOLUTION NO. 2508 ESTABLISHING FEES AND CHARGES FOR CHAPTER 5, WATER, OF THE GRESHAM REVISED CODE AND REPEALING RESOLUTION NO. 2937

THE CITY OF GRESHAM FINDS:

A. Chapter 5, Water, of the Gresham Revised Code provides that the council shall establish certain fees and charges by resolution.

THE CITY OF GRESHAM RESOLVES:

Section 1. The fees and charges for water service under Chapter 5 of the Gresham Revised Code are established by Resolution No. 2508, and amended by Resolution Nos. 2589, 2714, 2760, 2834, 2845, 2847, 2893, and 2937. Resolution No. 2508 is further amended as follows:

* * * * *

L. Water Use Charges.

1. Water Consumption Charges.

Bi-monthly water use charge per hundred cubic feet (ccf). GRC 5.50.010(l):

	Water Use Per Bi-monthly Bill Period	Current	Effective for Service Period Ending On or After 01/01/11	Effective for Service Period Ending On or After 01/01/12
a.	Single-Family Residential and Dedicated Irrigation			
	0 – 34 ccf	$1.99	$2.07	$2.19
	35 – 54 ccf	$2.41	$2.51	$2.66
	more than 54 ccf	$3.01	$3.13	$3.32
b.	Duplex and Triplex	$1.99	$2.07	$2.19
	Multi-family	$1.86	$1.93	$2.05
	General Commercial	$1.89	$1.97	$2.09
	Public and Institutional	$2.14	$2.23	$2.36
	Industrial	$1.91	$1.99	$2.11

2. Water Service Charge.

Monthly water service charge based on meter size. GRC 5.50.010(2):

Meter Size	Current	Effective for Service Period Ending On or After 01/01/11	Effective for Service Period Ending On or After 01/01/12
5/8"x 3/4″	$14.03	$14.59	$15.47
3/4″	$17.64	$18.35	$19.45
1"	$24.71	$25.70	$27.24
1 ½″	$42.40	$44.10	$46.75
2″	$63.67	$66.22	$70.19
3″	$113.29	$117.82	$124.89
4″	$184.13	$191.50	$202.99
6″	$361.31	$375.76	$398.31
8″	$673.17	$700.10	$742.11
10″	$1,046.55	$1,088.41	$1,153.71
12″	$1,495.29	$1,555.10	$1,648.41

3. Fire Flow Charge.

Monthly fire-flow charge based on gallons per minute (gpm). GRC 5.50.010(3):

Gallons per Minute (gpm)	Current	Effective for Service Period Ending On or After 01/01/11	Effective for Service Period Ending On or After 01/01/12
0 – 500 gpm	$2.11	$2.19	$2.32
501 - 1000 gpm	$4.20	$4.37	$4.63
1001 - 1500 gpm	$21.65	$22.52	$23.87
1501 - 2500 gpm	$53.57	$55.71	$59.05
2501 - 3500 gpm	$120.99	$125.83	$133.38
more than 3500 gpm	$148.27	$154.20	$163.45

* * * * *

Section 2. The following section is not being changed and is inserted here solely for the purpose of repealing Resolution No. 2937.

O. Cross Connection Control Program.

1. Fee for inspection of new backflow prevention assembly installation. GRC 5.55.030(7):

1/2″ - 2″ assemblies	$25.00 per installed assembly
3″ and larger assemblies	$150.00 per installed assembly

2. Fee for backflow prevention assembly annual inspection and testing by City at customer's request. GRC 5.55.030(9)(b):

$100.00 per assembly

3. Monthly Cross Connection Control Program Fee. GRC 5.55.030(11):

$1.00 per backflow prevention assembly

* * * * *

Section 3. The fees in this resolution are not subject to indexing or technology fees.

Section 4. Resolution No. 2937 is hereby repealed.

Yes: _____

No: _____

Absent: _____

Abstain: _____

Passed by the Gresham City Council and effective on _____.

_____ _____

City Manager Mayor

Approved as to Form:

_____

City Attorney

2011 Water Finance Information

What is the purpose of the Water Utility?
The Water Utility provides a safe and reliable water supply to the community through construction, operation, and maintenance of the public drinking water system. The Water Utility serves approximately 69,000 City residents through more than 16,000 individual connections to the distribution system. Nearly 90 percent of those connections serve single-family residential customers, with the other 10 percent delivering water to multifamily, commercial and industrial customers. A portion of the City's population receives water service from Rockwood Water People's Utility District.

What components make up the water system?
The water system includes more than 262 miles of waterline, 8 pump stations, a chlorination station, and 8 reservoirs with over 28 million gallons of storage capacity. On an average annual basis, the City's water customers use about 7 millions gallons each day. That amount can climb to 12 million gallons per day on the hottest summer days.

An automated telemetry system regulates pump stations and control valves to assure that adequate storage and flows are sustained and that water supply costs are kept as low as possible.

Currently, the majority of all drinking water is purchased from the city of Portland. The new groundwater supply system, a partnership project with the Rockwood Water People's Utility District, is also now on line. Water from this system is being used to supplement the supply from Portland and provide a backup supply for Gresham water customers.

The current fixed asset value of the Water Utility is in excess of $62 million.

What activities are necessary in order to provide water services?
Some of the primary program activities include:

- Operation and maintenance of the public drinking water system, which consists of distribution and transmission piping, reservoirs, pump stations and telemetry systems
- Development and implementation of capital improvement projects, and planning and design of water system facilities in accordance with master plans and federal, state and local guidelines and mandates
- Installation of new water services, including lines and meters, to connect new customers to the City's distribution system
- Water quality monitoring, testing and security programs to protect public health
- Public education and outreach related to conservation and water quality
- Oversight of public improvement and capital improvement projects to ensure compliance with Council-adopted Public Works Standards
- Management of the overall Water Utility in a cohesive manner to maximize benefits and minimize potential liability

Why do we charge Water Utility rates?
Water Utility customers are billed on a bi-monthly basis. The revenues received from water customers provide the primary funding source for the Water Utility. These payments must cover the cost of operating and maintaining the water system today, as well as the cost of replacing the system in the future as the existing infrastructure wears out. Without charging rates, these utility services would not be provided. The utility does not receive any property tax or other General Fund-related revenue.

The Water Utility is managed as a business, and its finances are accounted for as an enterprise fund. That means the utility rates are used only to pay for costs associated with providing water services. It also means that the fund (i.e., the Water Utility) must be financially sustainable in order to continue providing services to current and future Gresham citizens.

Does the Water Utility receive money from any funding sources other than rates?
The Water Fund receives a small portion of its total revenue from other funding sources, which have been designed to recover the cost of specific activities. These other funding sources include interest earnings and fees and charges for engineering services. In addition, system development charges provide funds to pay for the planning, design, and construction of growth-related capital facilities needed to serve new customers.

It should be noted that many of these revenues are closely tied to economic conditions. As a result, they have been at a significantly reduced level for more than a year and are expected to remain lower than normal for the near future.

What factors are considered when proposing rate increases?
Many competing and interconnected needs and interests are considered when planning for long-term utility operations. The goal is to find a balance that leads to long-term sustainability of quality services as well as affordability for our customers both now and into the future. Some examples of the issues that must be balanced are described below:

- Capital investments versus operating expenses – Investing in equipment and/or facility upgrades may require a sizable one-time outlay of dollars, but may result in future cost savings by improving work processes or system functionality. Investment in the groundwater supply system, which will reduce the cost of water supply in the future, is an example.
- Current versus future costs – Deferral of some preventive maintenance activities may reduce costs in the short-term. In the long-term, however, deferred maintenance may speed up the need for replacement of facilities, increase the cost of repairs, and/or result in property damages. As a result, short-term savings may not be sustainable, and may end up costing customers more.
- Bond coverage rating and the ability to incur debt – Utilities often incur debt in order to replace or construct new infrastructure projects. Establishing rates sufficient to maintain a healthy financial outlook will improve a utility's bond coverage rating, and as a result, will lower the interest rates charged on any debt that is incurred.
- Future replacement of infrastructure – Funds should be set aside on an on-going basis to assist in replacing infrastructure many years into the future. A balance needs to be established regarding how these charges are attributed to current and future customers.

How often are rates reviewed?
Rates are reviewed on an annual basis to ensure that sufficient revenues will be collected to support the operating budget and capital improvement program as proposed. This plan/rate model helps evaluate projected revenue and expenditure requirements into the future. The plan assists in determining the appropriate balance among the competing needs as outlined in the answer to the preceding question.

In addition to the annual review focusing on revenue needs, the structure of the rates is reviewed periodically – typically about once every ten years. The rate structure is the methodology by which charges are allocated to various customer classes, and eventually to individual customers based on defined usage characteristics. For water, the rate structure is based on meter size, water usage, and fire flow requirements.

How is the rate increase applied?
Typically, the rate increase is applied evenly to all rate components and customer classes. That is, the same percent increase is attributed to fixed monthly and variable charges for a single-family residential customer, a multi-family customer, an industrial customer, and a commercial customer. The resolution accompanying this agenda item applies the rate increase uniformly.

Are there any specific guiding principles and/or Council policies that are used in setting rates?
Numerous guidelines, policies, and principles are used when developing rate proposals. Some of the specific principles and policies that have been previously adopted and/or recommended by Council include:

- *Principle 1:* The cost of operating and maintaining the existing system is to be borne by current ratepayers and reflected in current utility rates and charges;
- *Principle 2:* The cost of replacing the existing system over time is to be borne by current ratepayers and reflected in current utility rates and charges; and,
- *Principle 3:* Growth-related projects are funded from System Development Charges (SDCs), bond proceeds, and special fees.
- *General Policy – A2*: … Funding for the Operating and Capital Budgets shall be sufficient to provide municipal operating services and maintenance or enhancement of fixed assets needed to support public demand for City services.
- *General Policy – A12*: The City's Water Utility, Sanitary Sewer Utility, and Stormwater Utility are enterprise funds that are considered to be closed funds. The revenue sources of utility funds are dedicated to pay for costs associated with providing the utility's purpose and may not be used in a way that does not qualify as an expense in support of the utility's function.
- *Revenue Policy – C4*: The City will establish internal and external charges for service that reflect the full cost of service delivery and fully support both direct and indirect charges. … The following programs will strive to stay self-sufficient: … (4) Water, (5) Sewer, and (6) Stormwater.
- *Budget Policy – D7*: The City will maintain its infrastructure at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.

How does the proposed rate increase compare to the rate of inflation? Shouldn't it be similar?
There are several reasons why utility rates typically don't follow the rate of inflation. Examples include:

- Significant increases in the cost of 'big-ticket' items – Some specific items represent a disproportionate share of the cost of utility operations. Examples include the purchase price of water (for the Water Utility), electricity used for pumping or for operation of treatment facilities (for Water and Wastewater Utilities), and water quality monitoring (for the Stormwater Utility). These 'big-ticket' items can significantly increase in cost from year to year – in some cases, by more than 50%. Because of the size of these items, any large increase in cost for these items can impact utility operations more than the standard rate of inflation.
- New regulatory requirements – Inflation rates reflect the increased cost of providing the same service or product from one year to the next. Responding to new or increased regulations, however, may require additional work in order to provide the same basic services. As a result, additional costs are likely to be incurred (over and above the rate of inflation) in order to comply with new or changing regulatory requirements.

- Infrastructure maintenance and other future capital replacement needs – If funds are not set aside on an on-going basis to adequately maintain and replace infrastructure, future costs can be expected to increase significantly as maintenance costs increase, the need for infrastructure replacement is accelerated and/or reliability is compromised.

- The cost of capital construction rarely tracks common inflation rates, as the cost of materials used in construction can vary quite differently from the cost of goods and services typically measured in most cost of living indices.

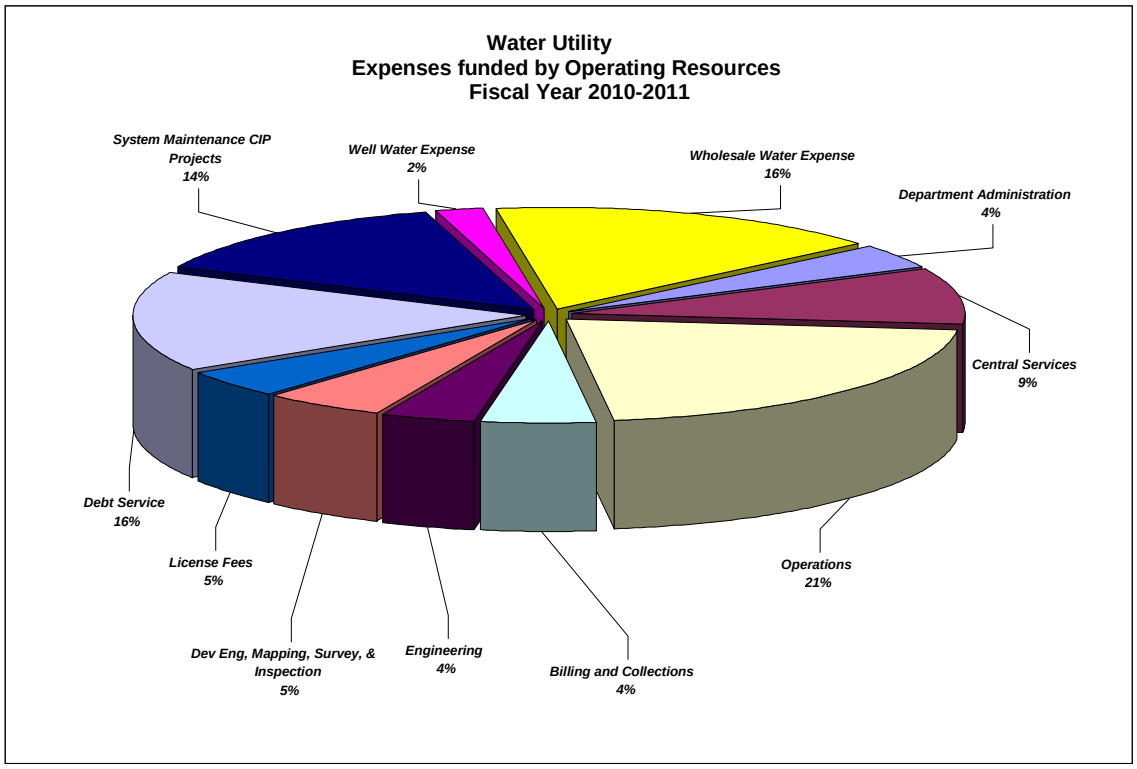
What factors contribute to the need for this rate increase?

Rates are impacted by many factors, both short-term and long-term, and are components of the 20-year finance plan. Primary factors in the FY10/11 update of the finance plan include:

- Continuing efforts regarding preventative maintenance, including increased flushing, valve and hydrant maintenance, and pipeline repair and replacement projects.
- Addressing near-term system replacement needs, including the Wallula and Overlook Waterline and Gabbert Reservoir. In addition, a capital maintenance plan is being developed that will further assist with identifying, prioritizing and scheduling other upcoming infrastructure repair and replacement needs.
- Preparing to pay for the City's share of the Portland Water Bureau's treatment facility to be constructed at Bull Run. This expense is currently estimated to be approximately $5M to $6M and is tentatively expected to be required during calendar year 2014.
- Preparing for future debt issuances that are anticipated for upcoming capital projects.

Where does the money go?

The chart shown below shows the breakout of major cost categories for FY10/11.



The purchase price of water continues to be a significant portion of the Water Utility's costs. Internal support functions such as information technology services, property management, vehicle maintenance, and legal support are included in the Central Services category. Debt service goes toward the repayment of bonds previously issued for capital construction, primarily for storage reservoirs.

What actions has the Water Program taken to minimize the need for rate increases?
The Water Program seeks to provide services that are reliable, efficient, and affordable. Some examples of actions taken recently to reduce costs and/or enhance services without increasing costs include:

- Development of a groundwater system in coordination with Rockwood Water People's Utility District.
- Implementation of a sophisticated water supply operations strategy, using computer technology and careful calculations, to minimize peaking factors and other usage characteristics that effect the cost of water supply. By using technology and targeting the usage of groundwater to control peaking factors, the City has been able to avoid significant cost increases from the Portland Water Bureau for the purchase price of water. This in turn reduces Gresham's share of the Bull Run treatment facility costs.
- Continued prioritization of Capital Improvement Program projects in order to focus on projects that have the greatest potential to reduce operating costs and/or address potential risks. Examples of key projects include the replacement of waterlines such as Wallula and Overlook and the replacement of Gabbert Reservoir.
- Secured funding through the American Recovery and Reinvestment Act of 2009 for the Water Meter Replacement Project. This project will replace all of the residential meters with automated technology, which will increase access to information and allow for customer service benefits as well.

Are there utility needs that are not being addressed with these rates?
There are numerous program needs that have not been included in this proposed rate. These can include activities that are being addressed at levels lower than optimum or needs that are simply being deferred. Funding for these items is not included in the FY10/11 operating budget, the five-year Capital Improvement Program, or, subsequently, in this rate proposal. Some of the unaddressed program needs include:

- Implementation of some Capital Improvement Program projects identified in the Water System Master Plan Update
- Planning, design, and construction of infrastructure to serve the Pleasant Valley and Springwater areas
- Implementation of a corrosion and cathodic protection monitoring program to reduce the effects of corrosion on water distribution lines located adjacent to or across high voltage MAX lines.
- Implementation of an enhanced leak detection program to minimize water system losses
- Positioning the Water Utility, financially, to be responsive to future expansion opportunities that could reduce overall costs to customers
- Heightened communication and outreach activities to highlight the value and importance of water
- Emergency preparedness and response planning, exercise and maintenance activities
- Expansion of the Water Conservation Program to fully meet obligations of the City's water supply agreements.

Can't we defer any other projects or reduce expenditures in order to avoid this rate increase?
Any additional deferral of projects and/or expenditures is not likely to result in sustainable cost savings. Instead, these actions would likely result in increases to the future costs of operating and maintaining the Water system.

- Reducing funding for system maintenance would result in additional deferred maintenance, reduced life expectancy for the existing infrastructure, bringing additional unexpected system failures and outages, ultimately reducing customer satisfaction.

What will happen if the proposed rate increase isn't approved?
Some planned maintenance activities would be reduced or deferred, which could threaten the ability to reliably deliver water. As explained above, any potential cost savings from these deferrals are short-term in nature and are not sustainable. In fact, deferring these actions would increase future costs and erode customer confidence. Based on sound utility management practices, the potential for short-term savings is insufficient to offset the likelihood of increased future costs.

What does the increase mean for a typical residential utility bill?
Applying the proposed increase to the water portion of the utility bill will result in a $1.29 per month increase on January 1, 2011 and a $2.01 per month increase on January 1, 2012 for an average residential customer, based on the use of 7 units or 5,250 gallons of water.

Does the City offer any customer assistance programs?
The City does have a Utility Customer Assistance Program in place that provides limited emergency funds to pay the utility bill for a customer experiencing financial hardship. If qualified, the customer would receive assistance for one utility bill (covering two months of service) one time per year. This program has provided full or partial assistance to approximately 200 customers per year since it's inception in FY94/95. Usage for FY08/09 was higher than normal, however, with approximately 400 customers receiving assistance.

Funding for the Utility Customer Assistance Program is shared by all three utilities: Stormwater, Wastewater and Water. The FY09/10 budget includes $55,000 for the assistance program, approximately $46,000 of which has been expended as of mid-May 2010. The Neighbors Helping Neighbors program also collects donations that are used for customer assistance.

How do Gresham's rates compare to other area jurisdictions?
Rate structures are unique to an individual service provider due to factors such as the physical make-up of the utility system, ownership of the water supply, actual services provided, and customer base and usage patterns. Gresham's proposed rate adjustments are significantly less than what several other area service providers have recently adopted or are considering for adoption.

Why is a two-year package being proposed?
The certainty provided by a two-year package allows some of the increase to be shifted into the second year, allowing more time for the economy to recover. If only a one-year package was proposed, the utility would be requesting a higher increase for January 1, 2011.

Given the existing uncertainties with the long-term debt markets and bond ratings, a two year proposal will provide additional security and ensure that rating agencies continue to view the utility favorably. The rating agencies view of the utility can impact the cost associated with any future debt issuances.

GRESHAM CITY COUNCIL
AGENDA ITEM TYPE: DECISION

Resolution No. 3022: Updating Wastewater Utility Rates

Meeting Date: June 15, 2010 Agenda Item Number: E-2
Service Area: Environmental Services Service Area Manager: David S. Rouse

REQUESTED COUNCIL ACTION

Move to approve Resolution No. 3022 amending Resolution No. 2508 establishing Wastewater fees and charges and repealing Resolution No. 2937.

PUBLIC PURPOSE AND COMMUNITY OUTCOME

The Wastewater Utility provides key services which are vital to the livability of our community. These include the safe and reliable collection and treatment of wastewater to ensure public health and safety and to protect the environment.

Rates are the primary revenue source for providing these utility services. The goal is to find a balance that leads to long-term sustainability of quality services as well as affordability for our customers both now and into the future.

City policy is to maintain infrastructure at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.

BACKGROUND

Wastewater rates are reviewed on an annual basis. Utility operating needs, including projected revenues and expenditures, are evaluated over a 20-year horizon using long-term rate models. Wastewater rates pay for the operation and maintenance of the wastewater collection and treatment systems, compliance with regulatory requirements, infrastructure repair and replacement, capital improvements, and debt service requirements.

The Wastewater Utility must be financially sustainable in order to continue providing services to current and future Gresham citizens. Based on current finance plan review and modeling, the Wastewater rates are projected to increase on January 1, 2011 by 4.0 percent or $0.96 per month for a typical single family residential customer. This proposal also includes an increase on January 1, 2012 of an additional 5.0 percent, or $1.25 per month for a typical single family residential customer.

Primary factors influencing the proposed Wastewater rate increase include regulatory requirements, maintenance needs, capital projects, and debt payment requirements. A two-year package is being proposed, which allows some of the increase needed to be shifted into the second year, allowing more time for the economy to recover. Also, given the existing uncertainties with the long-term debt markets and bond ratings, a two year proposal will provide additional security and ensure that rating agencies continue to view the Wastewater Utility favorably.

Revenues collected through rates must cover the cost of operating and maintaining the utility systems today, as well as the cost of replacing those systems in the future as the existing infrastructure wears out. Without charging rates, these utility services could not be provided.

RECOMMENDATION AND ALTERNATIVES

1. Staff recommends approval of the Wastewater rates as proposed in Resolution No. 3022.

2. Council may choose to adopt a modified proposal or defer action on the existing proposal. Deferring rate increases or adopting a partial increase may impact maintenance and operation of the Wastewater Utility and may defer or eliminate needed capital improvements.

3. Council may choose not to adopt an increase at this time. Forgoing rate increases will likely impact maintenance and operation of the Wastewater Utility and will defer or eliminate needed capital improvements. These actions may impact bond ratings and could increase the likelihood of being out of compliance with regulatory requirements which could result in fines and/or other penalties.

BUDGET / FINANCIAL IMPACT

The proposed rate increase will generate additional revenue which is needed to support ongoing operation and capital expenses and existing debt obligations. A 1% increase to the Wastewater rate results in approximately $134,000 per year in additional revenue for the Wastewater Utility. The associated impact to a typical single family residence for a 1% increase is approximately 24 cents per month.

PUBLIC INVOLVEMENT

All rate adjustments are adopted by Council resolution. Primary factors influencing proposed wastewater rates are typically discussed during the budget committee process and the Capital Improvement Program adoption process. Utility rates were also discussed at the February 9, 2010 Policy Development Meeting.

NEXT STEPS

The rate adjustments will be incorporated into utility bills beginning January 1, 2011. Customer notification will occur prior to that date.

ATTACHMENTS

A. Resolution No. 3022
B. 2010 Wastewater Finance Information

FROM:

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Paul Eckley, Wastewater Division Manager
Sharron Monohon, Senior Management Analyst

REVIEWED THROUGH:

Deborah Bond, Finance and Management Services Director
David Ris, City Attorney
Erik Kvarsten, City Manager

FOR MORE INFORMATION

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RESOLUTION NO. 3022

A RESOLUTION AMENDING RESOLUTION NO. 2756 ESTABLISHING FEES AND CHARGES FOR CHAPTER 4, WASTEWATER, OF THE GRESHAM REVISED CODE, AND REPEALING RESOLUTION NO. 2936

The City of Gresham Finds:

Chapter 4, Wastewater, of the Gresham Revised Code, provides that the council shall establish certain fees and charges by resolution.

THE CITY OF GRESHAM RESOLVES:

Section 1. The fees and charges for Chapter 4, Wastewater, of the Gresham Revised Code are established by Resolution No. 2756. Resolution No. 2756 is amended by Resolution Nos. 2833, 2846, 2847, 2894, 2925, and 2936. Resolution No. 2756 is further amended as follows:

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O. Wastewater User Charges. GRC 4.50.010(2):

For all user classes, the user charge shall not be less than the equivalent of that charged for a single residential dwelling unit prorated over the billing period.

Monthly Sewer User Charges	Current Fees	Fees Effective for Service Period Ending On or After 01/01/11	Fees Effective for Service Period Ending On or After 01/01/12
Basic Service Charges for All Accounts			
Inflow and Infiltration	$3.84 per service account	$3.99 per service account	$4.19 per service account
Billing Service Charges (GRC 4.50.020)	$3.43 per service account	$3.57 per service account	$3.75 per service account

Monthly Sewer User Charges	Current Fees	Fees Effective for Service Period Ending On or After 01/01/11	Fees Effective for Service Period Ending On or After 01/01/12
Residential Service Charges			
Single-family, duplexes, triplexes, manufactured home	$16.82 per dwelling unit	$17.49 per dwelling unit	$18.36 per dwelling unit
General Flow and Strength Charges (per hundred cubic feet, HCF)			
Low Strength (less than 400 mg/l combined BOD and SS)	$2.51	$2.61	$2.74
Medium Strength (400 to 1,100 mg/l combined BOD and SS)	$4.21	$4.38	$4.60
High Strength (greater than 1,100 mg/l combined BOD and SS)	$5.20	$5.41	$5.68

User Class	Strength
Multi-family	Low
Manufactured Home Park (Multi-family)	Low
Condominium	Low
General Commercial	Low
Restaurants	High
Bakeries	High
Taverns	Medium
Hospitals	Low
Mortuaries	Medium
Car Wash	Low
Laundries	Low
Industrial Laundries	Medium
Schools	Low

Monthly Sewer User Charges	Current Fees	Fees Effective for Service Period Ending On or After 01/01/11	Fees Effective for Service Period Ending On or After 01/01/12
Monitored Commercial and Industrial Volume Charges:			
Flow Charge (per 1,000 gallons)	$1.75	$1.82	$1.91
For Customers with 2006 annual average wastewater flows greater than 500,000 gpd, the Flow Charge will be multiplied by the Flow Factor for service period ending on or after:			
Flow Factor			
7/1/2008 0.79			
1/1/2009 0.83			
1/1/2010 0.87			
1/1/2011 0.91			
1/1/2012 0.95			
1/1/2013 1.00			
BOD (per lb.)	$0.37	$0.385	$0.404
SS (per lb.)	$0.36	$0.374	$0.393
Contract volume Charges (Wood Village and Fairview):			
Flow (per 1,000 gallons)	$0.25	$0.260	$0.273
BOD (per lb.)	$0.28	$0.291	$0.306
SS (per lb.)	$0.27	$0.281	$0.295
Depreciation charge (per 1,000 gallons of contracted average dry weather flow capacity)	$0.48	$0.499	$0.524

Where there is no user class or water usage record established for a customer, the manager shall evaluate and assign the appropriate monthly sewer user charge based on discharge to the system.

*** * * * ***

Section 2. The fees in this resolution are not subject to indexing or technology fees.

Section 3. Resolution No. 2936 is hereby repealed.

Section 4. This resolution shall be effective July 1, 2010.

Yes: _____

No: _____

Absent: _____

Abstain: _____

Passed by the Gresham City Council on _____.

_____ _____

City Manager Mayor

Approved as to Form:

_____

City Attorney

2011 Wastewater Finance Information

What is the purpose of the Wastewater Utility?
The Wastewater Utility provides for the collection and treatment of wastewater within the City of Gresham. Treatment services are also provided to the cities of Wood Village and Fairview. Primary goals of the Wastewater Utility are to ensure public health and safety, and protect the environment, through planning, design, construction and maintenance in a cost effective manner.

What components make up the wastewater system?
The wastewater collection system includes more than 308 miles of collectors, trunk lines, and interceptors, and 128 miles of service laterals, 6,700 manholes, and 8 sewage lift (pump) stations. The Gresham Wastewater Treatment Plant, which has a capacity of 20 million gallons per day, serves over 114,000 customers within the cities of Gresham, Wood Village, Fairview, and portions of Portland, and treats approximately 12 million gallons of wastewater daily. The treatment plant operations are managed by a contract operator.

The current fixed asset value of the wastewater collection and treatment facilities is in excess of $110 million.

What activities are necessary in order to provide wastewater services?
Some of the primary program activities include:

- Operation and maintenance of the public wastewater collection system, including repairs, locates, cleaning, and TV inspection of sanitary sewer lines
- Development and implementation of capital improvement projects and planning and design of the wastewater system in accordance with master plans and federal, state and local guidelines and mandates
- Operation/oversight of the Wastewater Treatment Plant, implementation of pretreatment services, and compliance with all regulatory requirements regarding handling and discharge of treated wastewater
- Inspection oversight for public improvement and capital improvement projects and ensuring that public improvements are constructed according to Council adopted Public Works Standards
- Managing the overall Wastewater Program in a cohesive manner in order to maximize benefits while minimizing potential liability

Why do we charge Wastewater Utility rates?
Wastewater Utility customers are billed on a bi-monthly basis. The revenues that the City receives from wastewater customers provide the primary funding source for the Wastewater Utility. These payments must cover the cost of operating and maintaining the wastewater system today as well as the cost of replacing the system in the future as the existing infrastructure wears out. Without charging rates, these utility services would not be provided. The utility does not receive any property tax or other General Fund related revenue.

The Wastewater Utility is managed as a business, and its finances are accounted for as an enterprise fund. That means the utility rates are to be used only to pay for costs associated with providing wastewater services. It also means that the fund (i.e., the Wastewater Utility) must be financially sustainable in order to continue providing services to future citizens of the City of Gresham.

Does the Wastewater Utility receive money from any funding sources other than rates?
The Wastewater Fund receives some money from other funding sources, which have been designed to recover the cost of certain specific activities. These revenues provide a small portion of the fund's total revenues. These other funding sources include interest earnings, and fees and charges for engineering services. In addition, system development charges provide funds to pay for the planning, design, and construction of growth-related capital facilities needed to serve new customers.

It should be noted that many of these revenues are closely tied to economic conditions. As a result, they have been at a significantly reduced level for more than a year and are expected to remain lower than normal for the near future.

What factors are considered when proposing rate increases?
Many competing and interconnected needs and interests must be considered when planning for long-term utility operations. The goal is to find a balance that leads to long-term sustainability of quality services as well as affordability for our customers both now and into the future. Some examples of the issues that must be balanced are described below:

- Capital investments versus operating expenses – Investing in equipment and/or facility upgrades may require a sizable one-time outlay of dollars, but may result in future cost savings by improving work processes or system functionality.
- Current versus future costs – Deferral of some preventive maintenance activities may reduce costs in the short-term. In the long-term, however, deferred maintenance may speed up the need for replacement of facilities, increase the cost of repairs, and/or result in property damages. As a result, short-term savings may not be sustainable, and may end up costing customers more.
- Bond coverage rating and the ability to incur debt – Utilities often incur debt in order to replace or construct new infrastructure projects. Establishing rates sufficient to maintain a healthy financial outlook will improve a utility's bond coverage rating, and as a result, will improve the interest rates charged on any debt that is incurred.
- Future replacement of infrastructure – Funds should be set aside on an on-going basis to assist in replacing infrastructure many years into the future. A balance needs to be established regarding how these charges are attributed to current and future customers.

How often are rates reviewed?
Rates are reviewed on an annual basis to ensure that sufficient revenues will be collected to support the operating budget and capital improvement program as proposed. This review is done using a 20-year finance plan/rate model that helps to evaluate projected revenue and expenditure requirements into the future. This finance plan assists in determining the appropriate balance among the competing needs as outlined in the answer to the question above.

In addition to the annual review focusing on revenue needs, the structure of the rates is reviewed periodically – typically about once every ten years. The rate structure is the methodology by which charges are allocated to various customer classes, and eventually to individual customers based on defined usage characteristics. For wastewater, the rate structure is currently based on discharge volume and strength. Because discharge is not measured for individual households, a discharge amount based on an area-wide average winter water usage is assumed to apply to all single-family residential customers.

How is the rate increase applied?
Typically, the rate increase is applied evenly to all rate components and customer classes. That is, the same percent increase would be attributed to a single-family residential customer, to a multi-family customer, to an industrial customer, and to a commercial customer. In addition, the same percent increase

applies to the volume and the strength components of the rate. The resolution accompanying this agenda item applies the rate increase uniformly.

Are there any specific guiding principles and/or Council policies that are used in setting rates?
Numerous guidelines, policies, and principles are used when developing rate proposals. Some of the specific principles and policies that have been previously adopted and/or recommended by Council include:

- *Principle 1:* The cost of operating and maintaining the existing system is to be borne by current ratepayers and reflected in current utility rates and charges;
- *Principle 2:* The cost of replacing the existing system over time is to be borne by current ratepayers and reflected in current utility rates and charges; and,
- *Principle 3:* Growth-related projects are funded from System Development Charges (SDCs), bond proceeds, and special fees.
- *General Policy – A2*: … Funding for the Operating and Capital Budgets shall be sufficient to provide municipal operating services and maintenance or enhancement of fixed assets needed to support public demand for City services.
- *General Policy – A12*: The City's Water Utility, Sanitary Sewer Utility, and Stormwater Utility are enterprise funds that are considered to be closed funds. The revenue sources of utility funds are dedicated to pay for costs associated with providing the utility's purpose and may not be used in a way that does not qualify as an expense in support of the utility's function.
- *Revenue Policy – C4*: The City will establish internal and external charges for service that reflect the full cost of service delivery and fully support both direct and indirect charges. … The following programs will strive to stay self-sufficient: … (4) Water, (5) Sewer, and (6) Stormwater.
- *Budget Policy – D7*: The city will maintain its infrastructure at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.

How does the proposed rate increase compare to the rate of inflation? Shouldn't it be similar?
There are several reasons why utility rates typically don't follow the rate of inflation. Examples include:

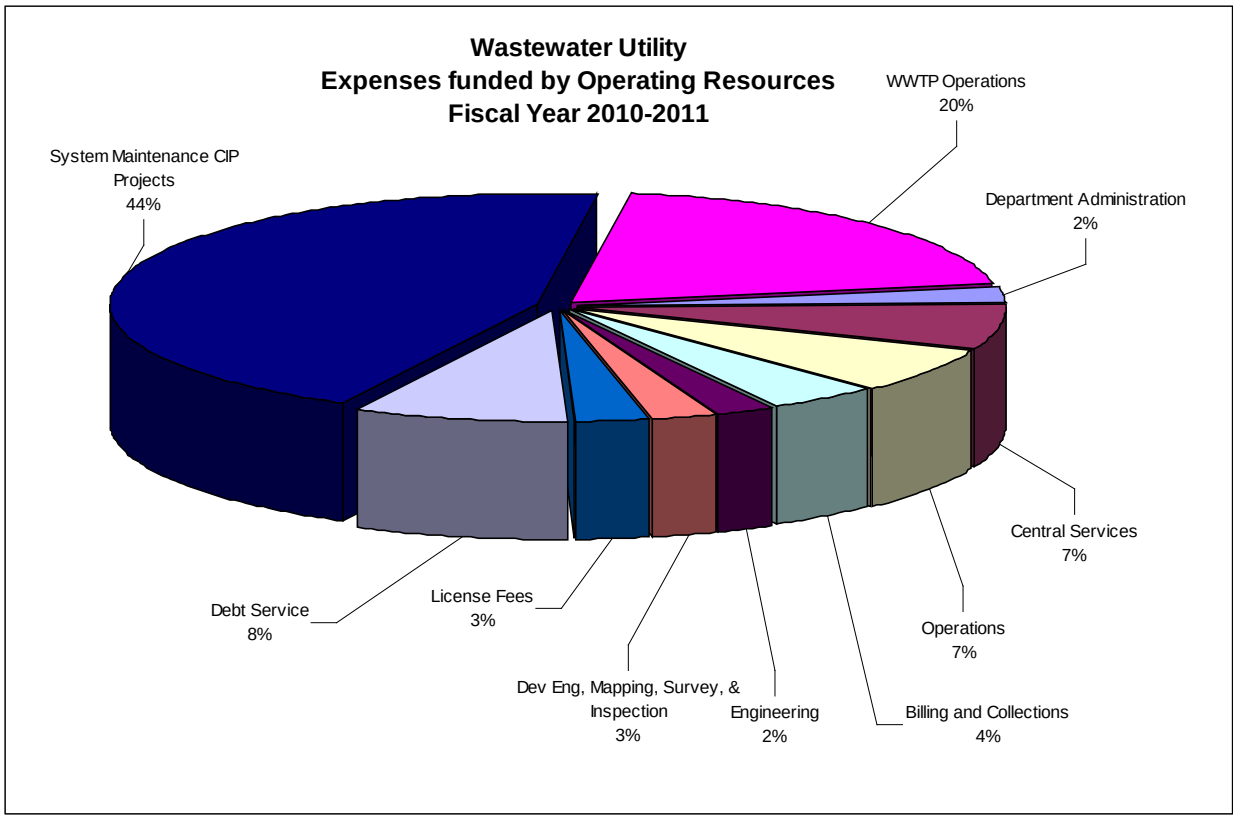
- Significant increases in the cost of 'big-ticket' items – Some specific items represent a disproportionate share of the cost of utility operations. Examples include the purchase price of water (for the Water Utility), electricity used for pumping or for operation of treatment facilities (for Water and Wastewater Utilities), and water quality monitoring (for the Stormwater Utility). These 'big-ticket' items can significantly increase in cost from year to year – in some cases, by more than 50%. Because of the size of these items, any large increase in cost for these items can impact utility operations more than the standard rate of inflation.
- New regulatory requirements – Inflation rates reflect the increased cost of providing the same service or product from one year to the next. Responding to new or increased regulations, however, may require additional work in order to provide the same basic services. As a result, additional costs are likely to be incurred (over and above the rate of inflation) in order to comply with new or changing regulatory requirements.
- Deferred maintenance and other future capital replacement needs – If funds are not set aside on an on-going basis to adequately maintain and replace infrastructure, future costs can be expected to increase significantly once that infrastructure is in need of replacement.
- The cost of capital construction rarely tracks common inflation rates, as the cost of materials used in construction can vary quite differently from the cost of goods and services typically measured in most cost of living indices.

What factors contribute to the need for this rate increase?
Rates are impacted by many factors both short term and long term. Primary factors in the FY10/11 proposal include:

- Responding to additional regulatory requirement that are being put into place at the state level. Recent legislation has resulted in a significant increase in required monitoring and evaluation efforts at the treatment plant. In addition, DEQ policies have also changed recently regarding backups and overflows.
- Preparing for long-term capital needs to ensure sustainable, reliable, cost-effective collection and treatment services into the future. It is anticipated that significant capital improvements and modifications will be needed on both the collection and treatment facilities during the next twenty years in order to maintain system reliability, continue compliance with environmental regulations, and meet the City's economic development goals
- Local and national economic conditions have significantly reduced system development charge revenues and interest earnings, which impact the ability to meet bond covenant requirements.

Where does the money go?

The chart shown below shows the breakout of major cost categories for FY10/11.



The largest single expense in FY10/11 for the Wastewater Utility is related to operation of the Wastewater Treatment Plant. Capital maintenance projects, which are currently focusing on pipeline and pump station replacements as well as process improvements at the treatment plant, represent the largest category overall. Internal support functions such as information technology services, property management, vehicle maintenance, and legal support are included in the central services category. Debt service goes toward the repayment of bonds previously issued for capital construction.

What actions has the Wastewater Program taken to minimize the need for rate increases?
The Wastewater Program seeks to provide services that are reliable, efficient, and affordable. Some examples of actions taken recently to reduce costs and/or enhance services without increasing costs include:

- Since the 400KW co-generator project was completed in November of 2005, approximately $250,000 worth of electrical energy has been produced each year. Approximately one half of the energy needed to operate the Wastewater Treatment Plant is now being provided by the new co-generator. The solar array, installed at the end of 2009, is generating another seven percent of the plant power. Additional measures, such as a micro-hydro facility and energy from imported fats, oils, and greases (FOG), are now being explored in order to further reduce energy expenditures

- Continued implementation and utilization of numerous Wastewater Treatment Plant programming, data management, and plant processing improvements as well as lift station improvements, which reduce long-term maintenance and operational costs

- Continued implementation of information technology upgrades to improve data accessibility in the field for wastewater collection system operations and maintenance crews

- Continued implementation of a long-term asset management program at the Wastewater Treatment Plant. Reliability centered maintenance (RCM) analysis has been completed for four asset groups at the plant. The RCM approach will help ensure the most effective maintenance practices are performed to maximize performance and the lifespan of plant assets. Comprehensive asset management has demonstrated significant reductions in life-cycle costs to own, operate, maintain and replace the physical assets necessary to provide services

- Use of pipe bursting and other innovative techniques to reduce the need for digging deep trenches. These techniques help reduce the cost of pipe replacement while also reducing the potential for disruption to neighboring properties

Are there utility needs that are not being addressed with these rates?
There are numerous program needs that have not been included in this proposed rate. Unaddressed program needs include items waiting for further information or analysis before a course of action is determined, potential issues that may or may not become specific requirements, and identified needs that are simply being deferred. Funding for these items is not included in the FY10/11 operating budget, the five-year Capital Improvement Program, or in this rate proposal. Some of these unaddressed program needs include:

- Planning, design, and construction of some infrastructure needed to serve the Pleasant Valley and Springwater areas
- Future capital needs related to Wastewater Treatment Plant unit processing improvements (for redundancy and backup)
- Adequate funding to complete some pipeline and treatment plant facility replacements in the future
- Potential new National Pollutant Discharge Elimination System wastewater discharge permit conditions. It is anticipated that future new permit requirements most likely will require additional testing and unit process modifications to the Wastewater Treatment Plant, requiring additional capital investment in order to meet the new permit

Can't we defer any other projects or reduce expenditures in order to avoid this rate increase?

Any additional deferral of projects and/or expenditures is not likely to result in sustainable cost savings. Instead, these actions would likely result in increases to the future costs of operating and maintaining the wastewater system.

- Reductions in pipeline cleaning frequency would increase the risk of sanitary sewer overflows and resultant property damage, public health exposure and environmental impacts

- Less frequent pipeline video inspection would reduce the ability to implement preventive capital improvement projects that effectively reduce and/or eliminate problems such as sanitary sewer overflows and inflow and infiltration

- Reduced funding to address pipeline deficiencies would result in more disruptions in service. By handling these disruptions in a reactive manner, repairs would be less efficient, less timely, and more expensive

What will happen if the proposed rate increase isn't approved?
Some planned maintenance activities and/or CIP projects would be reduced or deferred. However, as explained above, any potential cost savings from these deferrals are short-term in nature, and not sustainable. Based on sound utility management practices, the potential for short-term savings is insufficient to offset the likelihood of increased future costs due to noncompliance with regulations, system failures, and/or exposure to fines or lawsuits.

What does the increase mean for a typical residential utility bill?
Applying the proposed increase to the wastewater portion of the utility bill will result in a $0.96 per month increase on January 1, 2011 and a $1.25 per month increase on January 1, 2012 for an average residential customer.

Does the City offer any customer assistance programs?
The City does have a Utility Customer Assistance Program in place that provides limited emergency funds to pay the utility bill for a customer experiencing financial hardship. If qualified, the customer would receive assistance for one utility bill (covering two months of service) one time per year. This program has provided full or partial assistance to approximately 200 customers per year since its inception in FY94/95. Usage for FY08/09 was higher than normal, however, with approximately 400 customers receiving assistance.

Funding for the Utility Customer Assistance Program is shared by all three utilities: Stormwater, Wastewater and Water. The FY09/10 budget includes $55,000 for the assistance program, approximately $46,000 of which has been expended as of mid-May 2010. The Neighbors Helping Neighbors program also collects donations that are used for customer assistance.

How do Gresham's rates compare to other area jurisdictions?
Rate structures are somewhat unique to an individual service provider due to factors such as the physical make-up of the utility system, the actual services provided, and the customer base and usage patterns. Gresham's proposed rate adjustments are significantly less than what several other area service providers have recently adopted or are considering for adoption.

Why is a two-year package being proposed?
The certainty provided by a two-year package allows some of the increase to be shifted into the second year, allowing more time for the economy to recover. If only a one-year package was proposed, the utility would be requesting a higher increase for January 1, 2011.

Given the existing uncertainties with the long-term debt markets and bond ratings, a two year proposal will provide additional security and ensure that rating agencies continue to view the utility favorably. The rating agencies view of the utility can impact the cost associated with any future debt issuances.